

SOCIAL ACTION

PROFITS and the PROFIT SYSTEM

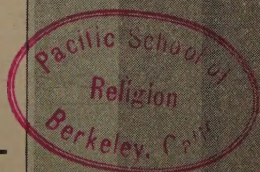
by

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FOREWORD

The Congregationalists and Christians at their General Council in Oberlin, June 1934, adopted a resolution in regard to the "profit system" which was provocative of excited argument. Much of the resulting confusion was rooted in disagreement as to the meaning of the term. Much of the criticism of the resolution was directed at the dogmatic inadequacy of the whole resolution method.

An increasing number of us are imbued with the opinion that the issues of our national life will not be settled in the atmosphere of dogmatism, whether it be the dogmatism of those who would claim a charmed and imperishable life for our traditional *laissez faire* capitalism, or the dogmatism of those who would root out the capitalistic tree, and feed it to the bonfire.

The Council for Social Action offers this dispassionate study of "profits and the profit system" from the pen of one of America's ablest economists. It invites study by laymen and ministers, for it deals with the forces which will build or destroy our American life.

HUBERT C. HERRING

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Profits And The Profit System

• by Paul H. Douglas

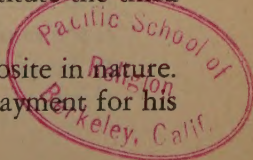
I. What The Terms Mean

The terms "profits" and the "profit system" have at least three different meanings. The word "profits" is sometimes loosely used to mean both the amounts received by those who supply the capital of industry and the amounts received by those who manage or take the risks of business. This was the sense in which the earlier economists, such as Adam Smith and Ricardo, used the term. It is still used this way by many.

As a separate class of risk-takers and managers began to develop, who were distinct from the more or less inactive capitalists who loaned their money or resources but whose responsibility stopped there, the term "profits" came to be defined more rigidly. The return on capital such as buildings, tools, machinery and raw material was labelled "interest" just as the return on material resources was labelled "rent." The phrase "profits" was then reserved for the return to those who took the risks or who managed business enterprises under their own initiative. In this stricter sense "profits" still includes no less than three sets of returns:

- (1) The wages of management.
- (2) Payment for the taking of risks. There must be some gains to compensate for the losses which occur.
- (3) Residual amounts which accrue to "owners" or managers after wages, interest or rent have been paid out to the workers and to the owners of capital and land. These last sums may be called "pure" profits and they constitute the third sense of the term.

In practice the income of many people is composite in nature. The typical farmer, for example, will receive a payment for his



labor, his land, and his capital. He also at least hopes for profit in addition. Small merchants customarily receive a return for their labor and their capital. For them also profits are in addition either a hope or a reality.

Then there are others who do not furnish labor to an enterprise but who do furnish capital which will be lost first if the enterprise fails. They therefore claim the residual gains which are left after all other claimants are paid. Such, for example, are the owners of common stock in large business concerns which also have issued bonds or preferred stocks which have a prior claim. The return to these persons is sometimes partly "interest" as well as "profits." But if their holdings represent no real investment in the properties it can be termed as "pure" profits.

Let us now turn to the meaning of the phrase "the profit system." This implies a business system in which the *direction of industry is in the hands of those who furnish capital* rather than those who furnish labor, and where the *expectation of private profit is the main incentive* for determining the amount of energy which is devoted to various purposes. This responsibility for direction and stimulus for profiting are not shared equally by all members of the capitalist class. On the contrary, there is a distinct tendency for a section of this class to occupy a relatively inactive position. In return for what they believe to be a safer investment they surrender both the control and the residual profits to a more active group which takes over the management and presumably assumes a larger share of the risks.

In the large, therefore, the profit system is one where (1) those who own the instruments of production exercise direction over those who work with these instruments, and (2) where the prospect of private gain is the main stimulus to business action. It is thus seen to be virtually synonymous with what we commonly think of as the capitalistic system.

This system did not come into being because it was deemed to be ethically superior to other economic systems. It grew up because the development of industry placed power in the hands of those who owned tools and machines, just as feudalism had developed previously by placing power in the hands of those who owned land and who could furnish skilled military service. But it is a characteristic of our times that an increasing number of persons are refusing to accept institutions merely because they are actualities. They are asking instead whether these institutions serve ethical ends and whether from the standpoint of human welfare they should be continued, altered, or vitally changed.

This questioning attitude is as repugnant to the dogmatic defenders of the profit system as was biblical and philosophical criticism to the dogmatic defenders of religious fundamentalism. But if we regard man as a reasoning being with a right to happiness and self-determination, there is no other way. Economic and political systems are made for man, rather than man for them. These systems are means and not ends and deserve to be regarded strictly as such.

What is important is that we should understand what the profit system is, what it does, and that we recognize both its strengths and its weaknesses. Upon this basis we can perhaps make up our minds as to what, if anything, should be done about it.

II. Arguments in Favor of the Profit System

The defenders of the profit system are frequently very inarticulate about the merits of this system. But there are at least five very powerful sets of arguments in its favor. They deserve to be considered fairly. They are as follows:

(1) That it affords the most vigorous and dependable stimulus to work and effort that we can devise;

(2) That it is the most effective way of eliminating the weak and perfecting the race through survival of the economically fit;

(3) That it grants freedom to purchasers to express their own preferences;

(4) That it is the best method for apportioning human energy and natural resources to the ends which humanity desires;

(5) That it has justified itself by its extraordinarily productive record during the last two hundred years.

Let us consider each of these contentions.

It Furnishes An Incentive

(1) *The defenders of capitalism are always insistent that the profit system brings out the full energies of men.* Most men, they say, will work for their own benefit and for the sake of their families. Since the profit system permits them to retain the gains which they make by their own ability and effort, it encourages them to strain their powers to the full.

Men in general will not work either hard or productively, they allege, for a common cause in which they will benefit only as an insignificant fraction of a large total. A few persons, like Steinmetz and Jane Addams, they will admit, may be capable of devoting themselves with intelligence and energy throughout their life to the welfare of society as a whole without much regard to their own economic interest. They will also grant that most men and women can for certain short periods of time, as in war, work with devotion for unselfish ends. All

he advocates of the profit system claim is that the great masses of mankind cannot for long maintain any such attitude. It is not "natural" for the "garden variety" of mankind.

If a man can only improve his condition in the degree to which society as a whole goes forward, and if all his efforts are swallowed up in the mass, will he not inevitably come to trust in society for his advancement rather than in himself? As he does this, will he not necessarily relax in his own efforts and rely upon others to maintain him? But this attitude, when generalized, means of course the economic and social deterioration of society as a whole, and hence rather speedily of the individual as well.

We have come to see this, say the defenders of the profit system, in relation to family matters. No one would now agree with Plato that the individual family should be abolished and that each child should regard all the adults of the community as his parents, and each adult regard all the children as his own. For, as Aristotle was quick to point out in his *Politics*, this would mean that each child with a hundred parents would be equally neglected by all.

It is just so in the case of property. Men will take better care of their houses if they own them. And, as someone has observed, no one will shoulder a gun in defense of a boarding house. It is far better, therefore, that men's energies should be at once canalized and stimulated by private property and the profit system instead of being diffused and ultimately dried up running into the sands of society as a whole. As each man is thus braced and stimulated to effort, he will work harder and produce more than he would otherwise. And as each man prospers, society prospers. For society is nothing but the sum of the individuals which compose it.

Under the profit system, therefore, while men do not primarily work for the benefit of society, they nevertheless foster it more effectively by first looking out for their individual interests than if they directly sought the social good itself. As Adam

Smith said, "They are led, as by an invisible hand, to promote an end which was no part of their intention." Or in the words of the couplet:

"Thus God and nature planned the Universal Frame,
And bade the self-love and social be the same."

It Eliminates the Economically Unfit

(2) *The second argument of the defenders of the profit system is that it serves to eliminate the economically unfit and to perfect the race through the increase and dominance of the competent.* If the first argument was largely fostered by the thought of the Eighteenth Century, this contention is peculiarly the child of the Nineteenth. For it is the application to the economic world of the principles of natural selection which Charles Darwin worked out for the biological.

Living is a struggle, according to this theory, because by the processes of nature more life is produced than can be supported. In this struggle many must of necessity go down, since it is a basic condition that only a minority can survive and prosper. Those who are best adapted to their environment conquer and those who are not adapted are crushed out and pass from sight.

The same principles are presumed to be at work under the profit system. Those who work hard, manage efficiently and save will make profits. They prosper and become dominant in business. Those who are indolent, who manage badly and are spendthrifts inevitably fail and fall lower in the economic ladder. Thus business is presumed to be a winnowing ground where the chaff is rejected and where the competent inherit the earth. By this process the direction of industry is placed in the hands of those who can best conduct it and the economically fit rise to the superior stations in life.

This moral was very pleasant during the Commercial and Industrial Revolutions to the rising men of fortune who never

ired of having it driven home by the drawings of Hogarth in his series on "the Idle and the Industrious Apprentice," by the Calvinistic doctrines of "God's elect" and by the writings of Samuel Smiles.

The theory of evolution seemed to give this doctrine final sanction and to confirm the successful in their belief that they were in fact superior and that not much sympathy should be lavished upon those who, in the great struggles of life, had failed. It may indeed be ventured that one reason why the theories of Darwin, Huxley and Spencer conquered the educated classes so easily during the last half of the Nineteenth Century was because they gave a mighty reinforcement to the economic beliefs and moral self-esteem of those capitalistic classes which were rising so rapidly in the world.

To abolish the profit system would seem, therefore, to this group to discard the invaluable sieve of natural selection and to enable the incompetent and unfit to survive and prosper. The fibre of the race would be weakened and the direction of industry would fall into slacker and feebler hands.

It Follows the Wishes of Purchasers

(3) *The advocates of the profit system also assert that it gives freedom to the consumers and causes industry to conform to the democratic wishes of society.* Under feudalism, men's expenditures were regulated by sumptuary laws. Under capitalism they are free to spend their income or their wealth as they wish. This is not only important in giving more freedom to the great masses of people, but it also causes industry to conform to the wishes of the democracy. If the crowds wish to buy books and automobiles, they will be produced. If they do not, then these products will not be turned out. The consumers' desires set the pace and industry follows. Men thus vote with their dollars for what will be produced, and this type of balloting is more important than political balloting.

Many of the alleged abuses of capitalism are in fact not the faults of that system but instead are defects of mankind which express themselves in the field of purchasing. Thus we are said to have sensational newspapers because of the public love for gossip, while commercialized saloons and houses of prostitution exist because of the human lust for strong drink and sexual gratification. It is the task of ethics and religion to make the desires of men pure and worthy. When this is done the capitalistic system will serve these ends as well as baser ends.

By thus granting freedom to man to work out his own salvation the capitalistic system makes it possible for a higher system of ethical conduct to develop than could ever exist in a society where sumptuary legislation prevailed and where consumers' choices were limited.

It Apportions Well our Energy and Resources

(4) *The fourth argument in favor of the profit system is somewhat more technical but even more powerful. It is that this system affords the best means of apportioning the energy and resources of a society as between different economic purposes.* An individual will normally apportion the distribution of his own time and money so that they will yield the greatest satisfaction of his desires. The way he does this is to spend such amounts of time or money upon various lines of interest as will make the satisfaction yielded by the various *last units* equal. For if they are not equal, he can further increase his satisfaction by taking time and money away from those purposes where the last units yield less than they do elsewhere and transferring them to where they yield more.

Much the same principles operate under the profit system provided it is perfectly competitive. For if the popular demand for one set of products is so great as to drive their price up to a point where a handsome profit is left after paying the

ordinary expenses of rent, interest and wages, it is a fairly sure indication that the public demand for these articles is more intense than for others where no such surplus is left after the payment of these costs. From the social point of view, it is desirable that such human energy and natural resources should be withdrawn from the goods where the demand is less intense and devoted instead to the first set of products. This is precisely what the profit system does.

The existence of large profits in a given industry will lead, if we have a fluid competitive system, to an increase in the quantity of capital and labor which is engaged in it. This will cause the output in the given industry to increase. Prices and consequently profits will then be reduced. The process will go on until the rate of return to the owners in this industry is the same as elsewhere and until "pure" profits as such have disappeared.

Profits thus serve as the measuring rod of social desire as balanced against costs. If they rise in given lines then energy should and will be transferred to them. If on the contrary profits are a minus quantity then energy should be transferred from them. This tendency goes on until there is equality at the margins, and to the degree that money offers are a measure of social desire, this then is the point of greatest social satisfaction. "How," it is asked, "can society develop a better governor for the apportionment of resources?"

It Has Yielded Great Results

(5) *The last main defense which is offered for the profit system is an appeal to history. In the two centuries during which that system has become dominant there has been the greatest expansion of population and the most rapid increase in material welfare which the world has ever seen. The population of the western European nations in 1730 was probably not much more than one hundred millions. By 1930, however, if we include the offshoots of this stock in the New World, the*

total population was not far from five hundred millions. This was not accomplished by an increase in the birth rate, for that rate was cut in half. It was accomplished by a great reduction in the death rate. The expectancy of life at birth has been more than doubled. There is far less sickness and less fear of death.

Not only has the quantity of life expanded but the average standard of material well-being has risen as well. By 1929 the average level of real wages in this country was approximately four times that of a century earlier. The researches of Professors Bagge and Myrdal show an approximately similar gain for Sweden during the last seventy-five years. The studies of Bowley and of G. H. Wood indicate in turn that real wages in England rose by 70 per cent during the half century between 1860 and 1910. Anyone who doubts the progress which the English working classes have made during the last forty or fifty years has indeed only to compare the new survey of *London Life and Labour* with that carried through by Charles Booth in the late eighties and early nineties.

All this progress was attained under the profit system and was made possible primarily by the great increase in productivity which occurred. Factories, machines, railways and power stations sprang into being and multiplied. Technical knowledge and science made innumerable strides forward. Despite wars and business depressions, the period of the profit system has been one of enormous material progress for the common man.

Its advocates claim, therefore, that it is justified by its record and that a system under which mankind has prospered so greatly should not lightly be discarded. The record of history, they say, seems to indicate that the system is fundamentally sound. If there are weaknesses these should be remedied. But these flaws should not lead us to destroy the system itself. In removing evils, we should take pains not to imitate the serving maid who threw the baby out with the bath.

II. What the System's Critics Say in Reply

Those who disbelieve in the profit system advance at least three distinct lines of argument. The first is (1) a reply to the alleged advantages of the system as they have just been set forth. Then comes (2) an outright indictment of the evils of the profit system and finally (3) a listing of the possible benefits which it is claimed some other method of conducting industry would yield. If the discussion proceeds still further a fourth line of exposition is developed concerning the main methods by which it is hoped to make the alternative systems work. We shall take up these main lines of argument in turn.

First, it is contended that the proponents of the profit system have greatly overstated their case. If we consider the last contention which was advanced, we find that *virtually no socialist or communist denies that in the past capitalism has helped mankind to make great material progress and that it has been an indispensable stage through which the western nations had to pass*. But they go on to say (1) that the progressive period of capitalism is largely over so far as the more advanced countries are concerned and that instead of the profit system being an aid to mankind it has now largely become an impediment; (2) that it is possible for mankind to do still better with another economic system than with that based on private profits and capitalism.

The critics of the profit system draw a sharp distinction between what they term a "progressive" and a "decaying" capitalism. The former type, they say, characterized Great Britain during the Nineteenth Century and the United States up until the Great Depression which began in 1929. These days are now over. Capitalism and the profit system in both of these countries, they declare, is unable to distribute enough purchasing power to the masses to enable the productive capacity of society to be used. The result is widespread and continuing

unemployment, misery and destitution for millions, colonial struggles and international war.

Internally it is claimed that capitalism has turned from the liberalism which it espoused in its more expansive period and that in order to hold the workers in check, it fosters fascism which, they declare, is an effort to maintain capitalism by force and terror. This claim that capitalism has passed its climax and is now in a decaying and retrogressive state is supported by an appeal to the history of the last decade and by a theoretical argument which will be considered later.

In a similar manner, it is admitted that the profit system furnished in its earlier days a powerful and direct stimulus to effort. It is contended, however, that the development of large scale industry has removed this incentive from the vast majority of the urban population. They are employed by large corporations and neither receive profits nor have any real chance of becoming masters of their own business and of receiving profits in the future.

In 1929, as Berle and Means show in their able work on *The Modern Corporation*, 49 per cent of the resources of all non-financial corporations were in the hands of the two hundred largest corporations, each of whose gross assets amounted to more than ninety millions of dollars. This was about 38 per cent of all business wealth. A later checkup which was made by Dr. Means indicated that by 1933 the former percentage had increased to at least 55 per cent and the latter to not far from 40 per cent. In 1930, 38 per cent of all the wage earners in manufacturing were employed in establishments with more than five hundred workers. In mining also approximately the same proportion were employed in units of this size.

In addition we should note the narrowing of the field of small enterprise in retail trade and banking, and the relatively low earnings of industrial workers and tenant farmers and their lack of property. It follows that the vast majority of present day Americans do not have the chance as owners of

being stimulated by the profit system. Instead they now work and will continue to work for wages and salaries. A socialized economy would not, therefore necessarily weaken their incentives since it could not take away from them something which they do not possess. The old incentives have, it is alleged, faded out of the lives of most Americans even though the proponents of the profit system continue to speak of them as though they were a universal and ever-present stimulus. The situation is indeed said to be very similar to that in *Alice in Wonderland* where the smile of the Cheshire cat persisted long after the cat itself had disappeared from sight.

The argument that the profit system leads to the survival of the fittest is in turn labelled as being philosophically shallow. Competent students of the theory of evolution have realized that this process does not necessarily carry with it any ethical seal of approval for the results. The truth of the matter is of course that the evolutionary process is thoroughly unmoral and that the environment primarily determines which set of characteristics are to survive and conquer.

This is obvious so far as the physical conditions of life are concerned. The types of animal and vegetable life which flourish in the tropics are very different from those which are dominant in the temperate zones. The same tendency is equally true so far as the social environment is concerned. In one environment kindness, generosity and altruism will have survival value over selfishness and cruelty. In other environments those who have the latter set of characteristics will be able to conquer the former group.

The opponents of the profit system contend that it fosters a set of characteristics based on greedy self-interest, which the inner conscience of mankind has already come to regard as unlovely and on the whole immoral, and that it prevents other and finer qualities of man from becoming dominant. Since man can change his social environment, they therefore wish to bring into being an economic and social system which will

select these other characteristics and types and make them dominant. They wish thus to make evolution a creative process which will more nearly conform to man's ethical ideals.

To the argument that the profit system gives the consumer the power to decide what shall be produced, it is replied that the profit-makers themselves influence the minds of the consumers to the disadvantage of the latter. The consumers do not make their choices in isolation or primarily upon a scientific basis of fact. Instead they are blown hither and thither by the winds of advertising and propaganda.

This advertising and propaganda in its very nature is self-interested and is commonly intended to produce irrational belief. The multiplication of such advertising from different and frequently conflicting sources produces confusion and makes it difficult for any rational system of choices to result. The consequence is that the purchases of the consumer all too often reflect not their own real needs but rather the desires planted in them by the very organizations whose goods and services they are buying.

The fourth contention that the profit system leads to the best apportionment of productive energy rests, it is pointed out, on several assumptions which are by no means completely true. These are (a) that differences in the prices which people will pay for the same or for different articles measure corresponding differences in the amount of satisfaction which they receive; (b) that capital and labor are so freely mobile as to effect an equalization of return in all branches of industry; (c) that no other economic systems apportion energy correctly.

The first assumption is roughly true so far as the offers of a single individual are concerned. If a man is willing to pay twice as much for a suit of clothes as for a week-end trip it is probable that he expects to get twice as much satisfaction from the former as from the latter. But the same assumption does not hold when we deal with the amounts which a number of people with differing incomes are willing to pay.

Thus the poor widow who spends a dollar on milk for her children and the millionaire who carelessly tosses a dollar for a rose cannot be said to satisfy equally urgent desires with their outlays. On the contrary the millionaire has so much money that the utility which a dollar will purchase for him is very much less than the amount of satisfaction which a dollar will buy for a poor man. Yet each dollar of the rich man will have as much weight in the market as each dollar of his poorer brother.

Moreover, since the former will have many more dollars to spend than the latter, more energy will be devoted to satisfy his wants than those of his poor compatriots. Though we vote with our dollars, some of us under the present system are given almost an infinitely larger number of ballots than others. It is this which explains why energy is devoted to satisfy the luxurious desires of the rich while the poor lack such essential provisions as sufficient food, adequate clothing, shelter and medical attention.

The equalizing process which goes on under the profit system is, therefore, not necessarily one of human costs and human satisfactions but of money costs and money offers. It is indeed possible under this system for goods to be turned out where the human costs to the poor who produce them are greater than the human satisfactions derived by the wealthy who consume them. This is frequently true, for example, of elaborate dresses over which poor seamstresses have toiled, and of hand-made lace in the production of which the workers have lost their eyesight. It is also true of debasing types of amusement and of many other goods and services as well.

Finally, to the degree that there is monopoly or imperfect competition, substantial differences in rates of return may continue more or less permanently because capital and labor are impeded from entering the industries where profits are high. These barriers of course prevent the best distribution of productive energy. And yet monopoly and imperfect competition

are far more characteristic of the present order than the defenders of the existing system are accustomed to admit. For they are prone to use the assumptions of perfect competition to justify a system of private property where monopolistic or quasi-monopolistic conditions exist.

The final assumption that no other system will serve correctly to apportion energy will be considered in a later section of this pamphlet.

IV. The Positive Indictment of the System

Let us now turn to the positive indictment which is made of the profit system. It is charged with the following fundamental evils which, it is alleged, are inevitable and not accidental consequences. These are the charges:

(1) It has promoted extraordinary inequalities in the distribution of wealth and income which carry with them the great extremes of luxury and abject poverty.

(2) Huge monopolies have developed under it and competition has become increasingly imperfect. This has resulted in an exploitation of consumers and workers and has reduced production and helped to create unemployment.

(3) In the competitive industries widespread wastes and losses of energy are everywhere.

(4) Business depressions, with their attendant miseries, are the product of the profit system. There is little evidence that they will be abolished or indeed greatly reduced as long as that system is retained.

(5) The profit system by its emphasis upon self-interest greatly lowers the moral tone of mankind. In business it forces men into greedy acquisitiveness. In private life, it leads to competitive consumption. In politics, it creates corruption. In the field of international relations, it fosters war.

It Has Concentrated Wealth and Income

(1) *The facts about inequality need briefly to be stated.* A study by the Federal Trade Commission published in 1925 has thrown the most light on the distribution of wealth in the United States. This study covered the estates which were bequeathed in twenty-one representative counties in fourteen states during the period from 1912 to 1923. It was found that 70 per cent of the total wealth which was thus passed on was in the hands of 2.3 per cent of the deceased. In fact, 59 per cent was owned by the upper 1 per cent. At the other extreme the poorest 75 per cent apparently bequeathed only about 5 per cent of the total.

It may also be added that these results check very closely with those obtained by Miss Marjorie Lawrence in her study of the distribution of estates in Cook County (Chicago) Illinois. They show a somewhat greater degree of concentration than did Dr. W. I. King for Wisconsin and Massachusetts in his earlier book on the *Wealth and Income of the People of the United States*.

If these figures are substantially correct for the period covered we can obtain a somewhat clearer idea of the situation if we assume a community of one hundred people to have \$100 in total wealth. Then if this group followed the above pattern, there would be one wealthy man who would own \$59, and another fairly wealthy person who would own \$12. The poorest seventy-five persons would, however, own a little less than seven cents apiece. This would be on the average only about 1/800th as much as the amount owned by the wealthiest man. Indeed if all of the poorest seventy-five were taken together, they would own only about one-twelfth as much as this wealthiest man.

Since the property of the poorest seventy-five would be primarily in the form of household goods, their share of the industrial property would be still less. When we remember

that those who own the industrial property of the country have the legal control over business, we can see how the vast majority are excluded from this type of control. In England, in Germany and even in France, despite the widespread peasant proprietorship, conditions are substantially similar.

Thus far we have only spoken of the distribution of wealth. The distribution of the annual income of the country is less unequal because workmen and tenant farmers who do not own much property still receive earnings. But here too great inequalities prevail. In 1918, according to the National Bureau of Economic Research, the $2\frac{1}{4}$ per cent of the individuals whose incomes were over \$5000 a year received as much total income as the 39 per cent who received less than \$1000, namely, 18 per cent of the total national income. Their average income was, therefore, approximately seventeen times as great as was that of the poorest two-fifths of the population.

If we consider not the total income but instead only the surplus over the amounts needed to maintain a decent standard of life, and if we fix \$2000 as the amount necessary to provide this standard in 1918, we then find that the upper 2 per cent received 71 per cent of all surpluses above this figure. The relative distribution of this surplus was, therefore, virtually the same as the distribution of property. The two sets of persons who received 71 per cent of the surplus income and who owned the same proportion of the property were in all probability largely, although of course not precisely, identical.

Even more striking are the estimates made by the Brookings Institute on the distribution of the national income in 1929. They estimate that there were approximately six million families, or 21 per cent of the families of the country, whose family incomes were less than \$1,000 or an average of about \$600 per family. These families received only 4.5 per cent of the total national income. There were also another five and three-quarter million of families who only received an income of

between \$1,000 and \$1,500. Thus 42 per cent of the families had an income of less than \$1,500. Since these families tended to be larger than the average this meant that more than this percentage of the population were probably in these groups.

At the top of the economic ladder there were twenty-four thousand families, or one-tenth of 1 per cent of the total, who received over \$100,000 a year. These twenty-four thousand families had a total income of nearly nine billions of dollars or about two and a half times as much as the six million poorest families. Their average income was, therefore, five hundred times as much as that of the poorest.

There were four thousand families which had incomes of over \$500,000. This one-sixtieth of 1 per cent received one and a half times as much as the six million families at the bottom. On the average, therefore, *one of these families received as much as twenty-two hundred of the low paid families.*

The American Liberty League has recently sponsored statistics showing apparently less inequality for what seems to be a later date. At the time this pamphlet went to press, however, I had not received from them the basic data upon which this estimate was made and hence was unable to include it in the discussion.

That great poverty existed even at the height of our so-called prosperity is seen from the fact that a family of five would have required in our larger cities in 1929 at least \$1000 or \$1100 a year to maintain itself on a poverty level of living. Such an amount really enabled the members of the family only to exist at the expense of their health and the depletion of their clothing, furniture, etc. In a similar fashion, existence on a subsistence plus level of living would have cost such a family at least \$1500 or \$1600 a year. After making allowances for the lower cost of living in rural districts and for those families which had fewer than five members it seems probable that even in 1929 not far from 40 per cent of the families of the

country lived on less than what could be regarded as an adequate minimum of physical subsistence.

While frontier poverty is commonly regarded as a blessing by those who have not shared in it, modern poverty of this type is a curse. With it goes high infant mortality, a shorter life, more sickness, and a lack of culture and amusements. Nor are the children of these families enabled as a general rule to take advantage of the free public schools and state universities which the public has generously provided. The burden of poverty leaves them with little energy to push on beyond the bare fundamentals of learning and commonly crushes their interest as well. The necessity for going to work at the earliest possible age in order to help their hard-pressed parents forces most of the ablest children in these groups to give up their own hopes for future advancement.

In short, poverty is a curse and not a blessing. It compels great masses to come into the race of life already saddled and bridled while those in the upper economic groups are booted and spurred.

Such is poverty at one end of the social scale. At the other extreme is the luxury of the wealthy. Fifth Avenue and Park Avenue in New York, Michigan Avenue and Lake Shore Drive in Chicago, the "Main Line" outside of Philadelphia, and their host of counterparts show a widespread expenditure by the wealthy upon non-essentials at a time when tens of millions lack the essentials of life.

In the last few years these contrasts have been sharply embodied in the person of a young American girl who is the heir to the Woolworth fortune. The American public has seen this young woman spend millions of dollars abroad on senseless luxury and speedily acquire in succession two titled husbands. And as she has done this, tens of thousands of other young American girls have worked long hours for pitifully low wages

in the five-and-ten-cent stores which provide this young woman with her income.

Such a contrast as this has compelled even rich reactionaries to admit that there is something wrong in a system which permits such things to happen. Nor is this case unique. It merely illustrates in high relief differences in the manner of life of the wealthy and of the poor.

A society which sought to decrease misery and to foster happiness would distribute its income far more evenly. The dollars which would be lost by those who are at present rich would deprive them of far less satisfaction than that which would be given to the poor by their addition, unless we are to assume that those who are at present wealthy are so innately superior to the poor that they are able to derive as much satisfaction or do as much "good" with the last of their many dollars as the poorer men and women with the last units of their smaller incomes. Similarly, a wider distribution of economic power would help to make democracy more real and would develop the personalities of those who are now more like "dumb driven cattle" than functioning citizens in a real democracy.

But the profit system, according to its opponents, prevents such a reform from coming into being. For it gives large incomes to those who own large amounts of property and gives most of the profits to those who are fortunate enough to be "on the inside" of business deals. Inequality is created and maintained by it and proposals to introduce greater equality through taxation are bitterly opposed by its supporters.

It Has Substituted Monopoly for Competition

(2) *The apologists for the profit system have customarily reasoned as though perfect competition were the all-prevailing condition. In practice competition is non-existent in many lines and highly imperfect in many others. This causes the real facts governing production and distribution to be very different from those which are customarily assumed.*

With perfect competition and the output of each firm providing but a small fraction of the total supply, any increase or decrease in the amount which one firm produces has no effect upon prices. The price is made for each unit. All the individual enterprise has to do is to adapt its output to the fixed price.

This has been true of such agricultural products as wheat, corn, sugar, cotton, etc. With a normal wheat supply for Europe and North America of around two billion bushels, the variations in output of an individual farmer who normally produces ten thousand bushels will not effect the price of wheat. Under such conditions the individual will produce up to the point where the added *marginal* costs required to turn out the last bushel will be equal to the price at which it and all the other bushels can be sold. If these added or *marginal* costs are more than the price there will be a loss on at least these units, and there will be a tendency for output to be reduced. If these costs are less there will be a net profit on the last units, and there will be a tendency for output to be expanded. Moreover, for reasons which space forbids us to develop here, there will be a tendency for the *average* costs as well as for the *marginal* costs to equal price and hence for *pure* profits to be non-existent.

Many and perhaps the majority of commodities, however, are produced under different conditions. For in the case of most manufactured goods, and in the case of services and stores in cities of moderate size, the number of competing establishments or persons is limited. In such cases when a given unit expands its output, it increases appreciably the relative total supply of the particular product and hence lowers the price at which the goods or services are sold. And now we come to the essential point. *When the expansion of output on the part of an individual firm lowers the price, the added revenue from increased production is less than the price per unit.* This is really obvious since the fall in price which is caused by the

roduction of more units applies not only to these units but also to the quantity which had been previously turned out.

What then is the significance of this fact? It is this: *Under conditions of imperfect competition, output will not be carried to the point where the cost of the last unit equals price but instead to when it equals the added or marginal revenue.* This should be obvious, for business will not increase its expenditure in turning out added products by more than it increases its revenues in so doing. This means that there will be a profit to the firm over costs on even the last unit and possibly a still larger profit on earlier units. The owners of capital and of land and the laborers will not receive the entire price. They will receive merely the marginal revenue for each unit which they turn out and the difference between marginal revenue and price will go to the enterprisers on each unit they produce. There will, therefore, be an exploitation of the factors of production and those who occupy the positions of vantage will reap large profits.

It may be objected that capital will be exploited as much as labor and that consequently there is no tendency towards class discrimination. But those who receive these monopoly profits are either the owners of business or those managers who are "on the inside" or both. They are, therefore, members of the capitalistic class rather than wage earners, and it is their class which profits.

Not only are large profits diverted in this fashion to a comparatively few but there is also a tendency for output to be limited and for permanent unemployment to be created. Since firms will produce only to the point where marginal costs equal marginal revenue rather than unit price, this means that they will not carry production to as high a point as they would under competition.

Imperfect competition, therefore, necessarily carries with it a restriction of output. But restriction of output necessarily

means a restriction of employment. To the degree, therefore, that monopoly and imperfect competition prevail, men are denied employment at the same time that society is denied goods. These men are either forced into the competitive industries with the result that prices and wages are lowered there, or they are left completely unemployed.

The owners of most firms will naturally desire competition to be as imperfect as possible. If they are not able to obtain an outright monopoly themselves they will want to combine with other firms to protect themselves from a reduction in price which an expansion of output on the part of their competitors will bring.

This has been sharply illustrated by the history of the A.A.A. and N.R.A. The former program aimed to increase the total income of the farming population by decreasing the amount of farm products which they produce. Since the demand for most agricultural products is inelastic, a decrease in output will commonly cause a more than proportionate increase in the price per unit. For a smaller total crop the farmers will, therefore, receive a larger total income. This program benefits the farmers but it increases the cost of living for others, and since it requires fewer man hours of labor, it has led to the dismissal of farm laborers and the forcing of thousands of tenants from the soil.

This policy is justified by its advocates on three grounds.

(a) The European tariffs and import quotas have deprived American agriculture of a large share of its former export markets and consequently our domestic production should be correspondingly curtailed.

(b) American manufacturing has for virtually a century been able to impose high tariffs on rival goods from abroad. This practice has increased the cost of living for the farmers and others, and by reducing the ability of foreign nations to

buy agricultural goods from us it has reduced the market broad for our food-stuffs, our cotton and tobacco. This has decreased the prices of these goods and has, therefore, hurt the farmers as sellers as well as buyers. The reduction of output under the A.A.A. was intended to do in part for the farmers what the protective tariff has done for the owners of industries protected by it.

(c) Many monopolies have flourished in urban industry which have compelled the farmers to pay higher prices than would otherwise have been necessary. These monopolies were largely successful in maintaining their prices during periods of depression when farm prices were falling rapidly. The A.A.A. was defended, therefore, as a means of giving the urban industrialists a dose of their own medicine. Those city dwellers who lament the country pigs which by not going to market have swelled the farmer's income should remember that the income of their industrialists has been increased for a long time by not sending iron pigs to market which in a competitive regime would have gone to market.

It would seem that the best way of redressing the position of the farmer would have been through removing the protective tariff upon manufactured goods and, so far as possible, breaking up the price policies of the monopolies. But the farmers despair of any such a policy yielding them quick relief. They demanded instead that the government give them the same kind of privileges which the urban monopolies had been able to obtain.

Not only was this done but the government, through the N.R.A., then proceeded to extend the area of monopoly in urban industry and the service trades. The various codes which were enacted, many of which are still informally in effect, had as one of their primary aims the increasing of prices and the pegging of production in the interest of the owners of industry. This was done indirectly through open-price agreements, through provisions that sales should not occur below "cost,"

by limitation upon the investment of new capital and the number of hours which machines could operate and by the authorization of basing point systems. By these means, the area of monopoly was greatly increased and a system approaching capitalistic syndicalism was set up.

But the policy of restricting output in order to boost prices is self-defeating when universalized, since one cannot increase the total national income by decreasing each and every portion of it. Yet most industries cling to these restrictive policies for their own benefit. The result tends to be one which boosts prices, holds down production and creates unemployment. This is a far cry from that which the apologists advance in behalf of the profit system. But it is what we are doing in a wide range of industries. There is therefore in a very real sense a conflict between the interests of specific industries when taken separately and the interests of society as a whole.

If we have a system of production for use, say the advocates of a new order, we would not have these restrictions upon production. For industry would then be geared to produce in order to satisfy human needs instead of to make profits. Instead of a reduction in the output of beef, pork, milk and cotton, we would produce more in order better to feed and clothe the people of the country. In industry restrictions upon output and artificial increases in prices would be swept away resulting in the turning out of more furniture, more and better housing, more cheap electricity and a host of other products. The standard of living of the people would be raised and the unemployed would be put back to work producing the goods for which there is so great a human need.

It Has Led to Great Wastes

(3) *While such are the abuses in the monopolized industries and those characterized by imperfect competition, the competitive industries are on the other hand shot through with great wastes. Each firm naturally wishes to survive and to grow.*

To do so, it must attract and retain customers. Therefore, it seeks to convince the buying public that its products are superior to those of its competitors and to catch the attention and obtain the loyalty of the buyers. The result is widespread advertising in the form of window-dressing, canvassing by salesmen and the tooting of "one's own horn" in the newspapers and magazines, over the radio, etc.

There are two economic defenses which are offered for such advertising: (a) by making men and women want more things, it stimulates them to greater activity and hence increases the national income, (b) by building up large concerns it reduces costs by obtaining the economies of large-scale production.

While these arguments are valid, they are only a part of the real story. To the degree that the national income is fixed, advertising merely determines which firm or industry gets the consumer's dollar. Each necessarily has to strive for it in order to survive. But the energies devoted to this purpose from the standpoint of society largely cancel each other. The consumer is enticed from Fit-U-Well to Fit-U-Better Clothes and back again, even though it makes no real difference which he buys.

Each firm is necessarily unsuccessful in getting the majority of the potential purchasers to buy from it. Consequently it has to load the costs of these failures on to the prices which it charges those who do buy. Every other firm does the same and the result is that the consumers pay for this process of mutual cancellation. Large numbers of men and large quantities of natural resources are thus wasted upon these efforts which if released for productive work would greatly increase the quantity of food, clothing, shelter and necessary services which the public could consume.

Nor does advertising insure that it will be the better goods which will be purchased. Research and analysis have revealed many harmful products which have been lifted into widespread use by "puffy" advertising.

The profit system also leads to the overcrowding of many lines with establishments which from the public standpoint are not needed to give effective service. This is notably the case in the distributive trades. In many cities, for example, there are multitudes of competing milk distributors. While only one postman will walk down a street, from a dozen to twenty milk wagons will frequently distribute milk to the same residents. Virtually every locality has many more grocery stores than it needs, and in the cities and towns of any size the same condition is true of restaurants, and stores handling drugs, clothing, hardware and drygoods. The unnecessary multiplication of filling stations is notorious.

In all of these cases fewer units of somewhat larger size and each with a more extensive stock of goods could probably give on the whole better service to the public and to do with a much smaller working force. The unnecessary workers could then be turned to the production of goods and services which society needed.

The opponents of the profit system stress the fact that all these wastes would be eliminated if these lines of business could be run on unified and integrated lines so that only those units which were needed to give good service would be allowed to continue.

It Has Caused Periodic Business Depressions

(4) *Business depressions, it is pointed out, are almost entirely the product of the profit system and came into being with it.* It is a tragic and a ridiculous situation for millions of people to be close to starvation at times when the granaries are overflowing with food. During depressions shoe-makers and tailors are out of work although they and their families are badly in need of shoes and clothing. Furniture workers are thrown out of employment at a time when the furnishings of the poor and middle-classes are being depleted. The building

workers lie idle while millions live in slums and large numbers are forced to sleep in parks.

Whether or not the profit system is the original cause for their unemployment, it is the force which bars their immediate reemployment. For while the unemployed have a human demand for each other's goods, since they do not have a money income, they do not have an economic demand. Private business does not, therefore, find it profitable to produce these goods or to relieve the workers. The result is that unemployment continues until it again becomes profitable to produce these articles.

Moreover, once the state comes to the aid of the unemployed and begins to buy goods from private industry in order to keep the needy alive the business men then generally oppose putting the unemployed to work producing for each other, although this would increase both the income of the nation and the unemployed. The business world is afraid that such a policy will decrease the amounts which the government purchases from them and the profits which they are making from the scanty allowances which are doled out to the jobless.

It is still an open question whether it is the very nature of the profit system which creates depressions or whether the causes are malformations which are only incidental to the system. The socialist explanation is that while the workers produce all wealth they are only paid a portion of what they produce. The consuming power of society, therefore, lags behind the forces of production and unsold quantities of goods accumulate which ultimately force a shut-down of production until they are worked off.

The difficulty with this theory is that it assumes the workers are identical with the consumers. But the capitalists are also consumers. To the degree that they spend their income on luxuries, they also employ workers and help to withdraw goods from the market. Most socialists admit this but declare that

by far the major portion of the income of the wealthy is not spent for luxury but is instead reinvested in industry. Even here, however, the workers would be employed just as surely on the production of capital goods as if they were directly producing consumers' goods.

But what will happen to the added quantity of consumers goods which these added capital goods will ultimately make possible? Can they be bought if the workers, including the wage earners, farmers, and salaried employees, have no more money than before? The answer would seem clear. They can be if prices are sufficiently reduced. The orthodox economists are right when they say that there is no such thing as general over-production. Any quantity of goods can be sold to buyers with a fixed money income provided prices are reduced enough.

What then prevents the necessary price adjustment from taking place so that the larger quantity of goods can be sold at the lower price level without creating widespread unemployment and a depression? There seem to be at least three disturbing factors:

(a) The mere fact of a fall in prices may sweep away the margin of profits so as to cause business men greatly to reduce their purchases and thus set into motion the cumulative forces of breakdown. This will be seen if we remember that profits, including interest, are the residuals which are left after costs are met and that production takes time.

(b) To the degree that there are monopolies, these resist the reduction in prices and hence throw the major share of the burden of price decreases upon the competitive industries. At the same time they suffer a greater diminution in the volume of goods sold and consequently they increase unemployment still further.

Not only do the monopolies intensify the depression but they also help to originate it. For even in periods when improve-

ments in efficiency are occurring and costs are being reduced the monopolies are largely successful in maintaining their prices. Their profits, as the experience from 1922 to 1929 shows, therefore greatly increase. These profits are largely reinvested in industry and hence still further swell the volume of capital goods. These capital goods in turn ultimately create more consumers goods and in order for these to be absorbed by the low income groups prices must be sharply reduced.

The large profits also lead to a speculative fever and to the investment of capital in lines which will not yield a permanent return. When such failures come to the surface there is a collapse of confidence and trouble starts.

(c) Those who purchase the vast majority of the goods turned out by the mass production industries are the wage earners, farmers and lower salaried employees. Those who invest in these industries are primarily the capitalists. If the income of the latter group rises more rapidly than that of the former there is likely, because of reinvestment, to be a very great increase in the output of these industries. But if this increased output is not accompanied by a corresponding increase in the monetary purchasing power of the classes which buy these goods, then the inevitable result is a fall in prices or an increase in unemployment or both. The last of course carries with it a further reduction of consumers purchasing power and creates still further unemployment.

It may be possible largely to prevent depressions under the profit system. But to do so would require a far-flung system of control. This control would involve such a socialization of the banking and credit features of our economy that many believe the banking fraternity would never consent to them. And since the large banking interests are so inextricably interwoven with the large industries, it is indeed quite possible that industry as well as finance would present a more or less united front against reforms and stabilizing measures which might save the system.

It Has Undermined Moral Standards

(5) *Finally we come to the moral effects of the profit motive.* Modern critics deny the Eighteenth Century theory that we can obtain universal welfare from universal selfishness. On the contrary, they maintain that a system which compels men to act almost exclusively from the standpoint of self-interest inevitably leads to a series of anti-social acts and creates a society in which each man is at war with virtually everyone else. The greatest good which is held out under such a system, they point out, is to get rich. If one has riches one generally acquires honor and respect. If one is poor, one lives badly and generally is looked down upon.

But one can get rich by producing shoddy goods as well as by producing excellent commodities. One can acquire riches by using unscrupulous tactics in crushing competitors and workers. Many fortunes have, moreover, been made by "insiders" by filching, through one form or another, the money invested in companies by innocent purchasers of stocks and bonds. One has only to study the origin of some of our wealthy families as narrated by Gustavus Myers in his *History of Great American Fortunes* and by Mathew Josephson in *Robber Barons* to see that the material rewards of the system have often gone to men whose activities have been largely anti-social.

The recent disclosures about the activities of such men as Samuel Insull, Mitchell, Wiggin and the Van Sweringens have disclosed a sad state of affairs and have shown that the practices of Jay Gould, Daniel Drew, Commodore Vanderbilt and Jim Fiske did not die with those worthies. And yet these men acted in this fashion not so much because they were inherently bad as because they were active participants in a system which emphasized personal acquisition.

There are many keen observers who believe that the profit motive is also largely responsible for the corruption of our political life and for the prevalence of crime. Most politicians

want to get rich. They treat politics as their business. Believing that they will acquire respectability in the eyes of the public if they can only acquire enough money, they are all too often venal and corrupt.

Most middle class advocates of good government stop their analysis here and think the corrupt politician to be the cause of corrupt politics. But for every bribe-taker there is necessarily a bribe-giver. These bribe-givers are by no means confined to the criminals, the saloon keepers, the gamblers and the owners of brothels. As students of municipal and state politics know, many business men who seek special favors from government offer bribes to politicians and parties to obtain them. In the former decades, the railroads and the trolley lines were frequently behind corrupt politics. In our generation the utilities of gas, electricity, etc., have in large part taken their place.

The political record of Illinois gives abundant evidence of this. As all know, in 1926 Samuel Insull contributed \$125,000 to the senatorial campaign fund of Mr. Frank L. Smith who was chairman of the Illinois Commerce Commission was in charge of the regulation of the rates which were charged the public by Mr. Insull's utility companies. At the same time Mr. Insull contributed \$10,000 to the campaign fund of Mr. Smith's Democratic opponent, George E. Brennan. The posthumously published confessions of Moe Rosenberg, a Democratic leader in Chicago, moreover stated that in 1929 Mr. Insull's companies gave Rosenberg some \$500,000 with which to "grease the palms" of most of the Chicago Democracy so that they would support his traction legislation and ordinance. And if Mr. Insull paid half a million dollars to corrupt the Democratic party which was not in power in Chicago at that time, it is an interesting subject for speculation as to what if anything the Republican leaders, who were in power, received.

Nor can such incidents be brushed aside because they occurred in Chicago and Illinois. The record in New York, Pennsylvania, Connecticut and other states has not been very different.

Lincoln Steffens after a lifetime spent in exposing corruption has told in his *Autobiography* of how at the root of corruption in virtually every city which he investigated, he found the privately owned utilities and other special interests. As he pointed out, these men feel driven to this corruption not because of any innate depravity but simply because they want to keep up their rates and their dividends and in order to do this they necessarily need political protection. For this they are willing to pay.

One of the ironical features of this situation is that these same business men commonly then turn around and adduce the corruption of politics which they have in large part created as a proof of the inability of government to manage affairs honestly and of the necessity of leaving these services in private hands where they can be administered in a comparatively immaculate fashion. In spite, however, of corruption there are many competent students who believe that local and state governments furnish services of education, highways, sanitation, water, etc., to their citizens more efficiently than the majority of private industries conduct their business.

Crime is fostered by economic conditions in the United States at least in a double fashion. In the first place, want and poverty drive many to crime. The pressure of economic insecurity forces many men to steal and to other anti-social acts in order that they and their families may survive.

Poverty has an especially powerful indirect effect upon the children of the poor. Because of the low earnings of their parents, they are generally forced to live in crowded and dirty quarters which are extremely depressing and which make their ordinary routine of life dull, depressing and sordid. Crime offers the boys an opportunity for what seems by contrast to be a life of high adventure and this makes a natural appeal to the spirit of youth. A strong impression is made on multitudes of girls by the fact that those who sell their sex to men seem to live an easier and gayer life than their over-worked and drab

others. Sometimes these appeals lead boys and girls consciously to choose a life of crime or sex delinquency as a means of escape from the dreary life around them.

Far more frequently, however, these young people stumble into a career of delinquency through a series of minor temptations and acts which gradually lead them into cumulative difficulties, and from which their over-worked and often ignorant parents with their inadequate home attractions are unable to protect them. The result is that the children of the poor are exposed to the terrific pressure of temptations to which the children of the well-to-do are never subjected, and it is small wonder if many succumb.

The emphasis which the profit system puts upon material wealth also leads many to crime. If the children of a slum district continue to be honest and hard-working they commonly have only the prospect before them of a life of hard toil as an unskilled or semi-skilled laborer. As such they feel that they will be at once under-paid and looked down upon by the rest of society. By contrast the "racket" offers them the prospect of wealth. With this wealth they know they can buy leisure and luxuries, and they believe with it they can obtain social esteem and respectability for their children, if not for themselves. The "racket" is in fact often the chief business career which offers them an economic chance to get ahead in the world. They in turn justify their position by declaring, with some show of truth, that many of those who occupy positions of unquestioned respectability in the community are in fact also engaged in "rackets", even though these be of a more polite and less spectacular kind.

Under all these conditions, it is indeed a tribute to the decency of mankind that the vast masses of men turn out so well. The advocates of a new social order stress the fact that the moral character of mankind would be enormously improved if poverty were to be abolished, if those who worked hard

were given both decent and attractive living quarters and if the workers were guaranteed relative security. If other values than personal acquisition were emphasized and if men were honored for their contributions to society and not merely for the money which they had accumulated, most men, they declare, would seek to live social rather than anti-social lives. But preaching, by itself, is virtually powerless to effect any such change in character and habits. It is necessary, they declare, to change the social and economic organization of society so that these qualities may be encouraged rather than discouraged.

If the economic system poisons and stunts character at the bottom of the economic ladder, it also maims those at the top. We have spoken of the temptations which surround the business lives of the rich. But the personal and family lives of the wealthy suffer also. "All power corrupts", said Lord Acton. "And absolute power corrupts absolutely." Wealth is concentrated power over persons and things, and those who are wealthy have by that very fact economic power.

It is easy to use this power for purely personal gratification and to become soft, indolent and even vicious in the process. It is doubtful indeed whether such persons as Harry Thaw would have led the vicious lives they did had they not possessed great wealth to procure vicious pleasures, and to give them relative immunity from the consequences which otherwise would have followed.

There are of course many of the wealthy who have sought to spend their money in noble and public-spirited ways and, without being invidious, one may mention in this connection such men as Dwight Morrow, Julius Rosenwald and John D. Rockefeller, Jr. The wealthy of America have indeed given great gifts to education and art as the donations of Rockefeller, Carnegie, Stanford, Johns Hopkins, Mrs. Gardner, Frick, Davis, Ryerson and many others testify. All credit should be given them for this.

But Thorstein Veblen is also largely right in his *Theory of the Leisure Class* in showing that the present order has encouraged men and women to display their fancied superiority by conspicuous waste and conspicuous consumption. The consequences of this practice have been well illustrated by the recent biography of Harry Lehr written by his widow and entitled *King Lehr and the Gilded Age*. In this book Mrs. Lehr shows how this degenerate and malevolent homosexual became, without character or culture, the social assistant and chief rubber for the leaders of the New York "Four Hundred." For them he planned dinners where the chief guest was a saboon in evening dress and also where the guests rode about on horseback and ate from golden platters which were handed up to them. The moral state of the "highest" society in the country is revealed by these memoirs to have been as sodden in its corruption as was the court of the last of the Romanoffs in Russia under the dominance of the depraved monk Rasputin, and not to have been very different from the home life of the Roman emperors.

In view of all these forces, declare the critics of the system, it is like whispering in the face of a hurricane for ministers of the church to preach on Sunday about the Christian virtues of love, good will and the life of active unselfishness. The present organization of life, say these critics, is on an entirely different footing and most men who try to practice in business what the church preaches are crowded out. Since the number of heroes is necessarily small, the majority of men take the hint and adopt those customs and practices which enable them to survive. As a result a dualism of values has quietly grown up.

It is more or less tacitly understood by the preponderance of church members that Christian ethics is a matter to be practiced in the home, during leisure hours and by the women and children who are attached to the bread and automobile winner, but that business and industry needs sterner and rougher stuff. It is this which in part accounts for the predominantly feminine

composition of church congregations and for the milk and water character of the teaching of many churches.

It is only in a very different sort of society, say the advocates of a new order, that the real Christian virtues will have a chance to survive and flourish. Those, therefore, who really want the Kingdom of the Lord to be realized upon earth are urged to work for a social order which will make it possible.

V. The Proposals for Fundamental Change

Those who want a new order are as yet far more united in their opposition to the profit system than in their advocacy of a given plan of reconstruction. But it is possible to outline the main features of the new order towards which most of the so-called radicals are working.

(1) *They want the socially necessary means of production and of distribution to be owned socially rather than individually.* This would include the factories, mines, railways, power systems, etc., and the main arteries of distribution. Farming could, however, be carried on by individual enterprise, tempered by cooperative marketing, purchasing and banking. Small stores could also still be owned by private persons.

(2) *Only property for power would be socialized, while property for use would be in private hands.* The advocates of a new order do not propose to abolish private property. There would still be some private property in the fields of production. There would be much more in the field of consumption. Houses and apartments could still be owned individually while house furnishings, books, pictures, clothes, etc., would remain under individual ownership. It is indeed the aim of this group to provide the vast masses of the people with far more private property than they have at present.

(3) *The businesses taken over by society are to be democratically managed.* It is not the purpose of the socialists

erely to replace one set of tyrants with another. In order that these institutions may be democratically conducted it is in general advocated (a) that the managers should be selected by bodies which are either directly or indirectly chosen by the voters; (b) that the personnel of the state service should be selected, retained and promoted on the basis of merit and not political influence; (c) that the workers in public enterprises should be further protected by their organization into independent unions.

(4) *The scale of remuneration in the new society should be such as to prevent either poverty or great riches.* It is the aim to pay all the workers enough to maintain them and their dependents upon at least a minimum of decent existence. It is the aim, therefore, to distinctly raise the wages of unskilled and semi-skilled labor. On the other hand, enormous incomes would cease to exist. Only a few persons advocate an absolute equality of incomes, but all those working for a new order believe that the inequality should be much less than it is.

Most advocates of a new order seem to feel that it is not necessary for the maximum income to be more than ten or twelve times the minimum, and that they might therefore vary it between \$1500 a year at the bottom to from \$15,000 to \$18,000 a year at the top. These differences, it is urged, would be enough to bring out the efforts of man. This tendency would be strengthened further by the development of non-financial incentives. Moreover, amongst the manual workers individual and group piece rates could be adopted to offer an immediate and powerful stimulus to production.

(5) *It is evident that one aim of this program is to prevent the perpetuation of an hereditary leisure class* which, through its ownership of land or industrial capital, is able to live in luxury without being obliged to labor. It would be the purpose of the new society on the contrary to abolish this parasitism and instead to have those who are capable of working earn their own

maintenance. There would still be leisure, but it, like material resources, would be more evenly distributed. The hours of work would be shortened, vacations with pay would be given and men would be retired in their old age with a pension.

(6) *Certain public services would be furnished freely by society.* These would include education both for young people and in the form of extension classes for adults. Health care also would be provided. A truly cultured society would wish to extend a cultivated appreciation for the plastic arts and music, drama and the opera. It would do this both through the maintenance of museums and theaters and through encouraging active participation in them. It would also foster recreation and athletics through the development of parks, bathing beaches, mountain trails, etc.

(7) *The volume of production would be planned in such a way as to keep the population fully employed and to prevent unemployment.* This could be done because by putting men to work they would be given purchasing power with which to buy the products of others. In building up production society would at the same time build up demand. This, as business depressions show, is not fully done today under our credit and profit economy.

(8) *The consumers would still have freedom of choice and within certain limits could spend their money how and in the proportions they wished.* The prices of goods would be allowed to settle at the points where the markets would be cleared. If an industry showed a profit over cost, it would be taken as an indication that the production of the type of goods should be increased; if it showed a loss, then production in this line should be curtailed.

There are several features which are involved in this statement which need to be treated in more detail.

(a) The planning of production would not merely proceed from a group of centralized planners located at the center but

would also come up from the estimates of consumers needs and desires as prepared by the consumers cooperatives. There would thus be a continuous two-way system of planning which would always keep the production authorities acquainted with the wishes of consumers.

(b) The one price system would be used as the ultimate guide to production because the great inequalities in income would be abolished and relative money offers would measure relative need far more clearly than today.

(c) Minimum quotas of production would be assigned to industries and to plants and this would help to keep them up to standards of efficiency. The keeping of comparative profit and loss statements would also help to keep the managerial force on the alert.

(d) The interest and profits made by individual industries would not be retained in their entirety by these units but would be partially pooled.

(e) Only those units of production and distribution required to produce and distribute the needed quantity of goods would be set up and maintained, plus a margin of plants allowed for safety. All discoveries and new processes whose worth had been proved would be pooled for the benefit of all.

(f) Further incentives to managers and inventors could be offered by giving them respectively a small percentage of the profits made by a plant or industry and a small royalty upon the inventions or processes used.

A full discussion of these points and of whether or not they would largely accomplish their objectives would of course require more space than we have at our disposal. They are mentioned only in order to give definiteness to the proposals for fundamental change.

VI. The Counter Attack

The intelligent defender of the profit system will admit many of the arguments which have been advanced against it. He will counter, however, by saying that the advocates of a new order have painted a far too rosy picture of how life would be lived under it. Men would still struggle for power and would seek to dominate their fellows. A new despotism would arise in which men and women would be under the control not of industrial magnates but of political leaders. Those who thought differently from these leaders or who opposed them would be crushed out and would have no alternative economic system in which to find refuge.

These gloomy possibilities, as Bertrand Russell has pointed out, are seldom recognized by modern socialists because they as pioneers in the movement tend to be men and women of exceptional disinterestedness. But they and their kind are not likely to be those who climb to power once such a system is instituted. Instead the active man of affairs is likely to assume control of such an organization and this class has never shown itself particularly fond of the freedom of others. The ultimate governing personnel of a socialist community is, therefore, likely to be as different from its earlier advocates as was the Roman church in the time of Alexander Borgia from the saints and martyrs who sealed their faith with their blood.

All this, the advocate of a new order will reply, is a counsel of despair. Granted that there will be danger of tyranny under a socialized economy, we have it now. There would be less of it then, he will say, because poverty will be largely removed and men will not be able to control others through their possession of property. Not all evil will disappear with the change of systems, but some of it will. That will be a gain, but there will still be work for earnest and concerned spirits.

VII. Is There A Half-Way House?

Many persons who see the strength and the weaknesses of the system of private profit are anxious to eliminate the weaknesses without impairing the system itself. The better informed of this group are tending to give up public regulation of private business as such a remedy on the ground that this process will almost inevitably come to be controlled by those whom it is presumed to regulate. They are tending instead to divide industries into two classes: namely, those which are primarily competitive and those which are primarily monopolistic. They would socialize the latter but leave the former in private hands.

They advocate this because they believe it is the private monopolies which restrict production, pile up profits and are largely responsible for depressions. But at the same time that they would socialize those which are largely monopolistic, they would do everything possible to restore price competition in the other industries.

Three other features of the program need also to be mentioned:

(a) Various types of cooperatives, including retail and wholesale trade, the marketing of farm products and small scale loans would be fostered. This would lessen the wastes of individual competitive industry and the conflict between egoism and altruism diminished at the same time that the real income of the members was increased.

(b) A reform of the banking system would be carried through in which at least the creation of the total quantity of monetary purchasing power would become a state rather than a private function. The profits from the creation of this purchasing power would thus accrue to society and if it were properly directed business depressions would be largely eliminated.

(c) In order to prevent great inequalities of fortune from developing and multiplying, high income and inheritance taxes would be levied, the proceeds of which would be used for education, health, culture, etc. Taxes on the unearned increase in land values would also trim away another source of inequality.

By such methods as these, it is hoped to save the good features of private capitalism and at the same time to realize the advantages of socialization. In Sweden some such program as this is already in operation and has helped to give that country a relative degree of stability during this depression as well as helping to raise the level of the economic and cultural life of the people. One is not justified in thinking, however, that even such moderate changes as these will be made without serious opposition from powerful private interests.

Additional Readings

Modern Corporations and Private Property, by A. A. Berle & G. C. Means. Macmillan, 1933, \$3.50.

"A masterly achievement of research and contemplation."—C. A. Beard.

Capitalism and its Culture, by Jerome Davis. Farrar, 1935, \$3.00.

Traces the rise of modern capitalism and analyzes its effect upon Western civilization.

Controlling Depressions, by Paul H. Douglas. Norton, 1935, \$3.00.

The author's purpose is "to analyze the main causes of the present depression and to point out the way in which future depression may be eliminated or reduced."

Rich Man, Poor Man, by R. C. Goslin. Harpers, 1935, \$1.00.

The ABC of economics. With simple text and graphic illustrations the authors point out how our economic system has broke down and suggest that government ownership of the means of production and distribution would give to all enough food, shelter, clothing, education and leisure for the cultivation of the good things of life.

Christ's Alternative to Communism, by E. Stanley Jones. Abingdon, 1935, \$2.00.

"Dr. Jones sees the world facing a supreme crisis. Capitalism is breaking up under the impact of inexorable social movements, away from competition to cooperation."

Technics and Civilization, by Lewis Mumford. Harcourt, 1934, \$3.50.

"The most competent account of the development of technology."
—Harry Elmer Barnes.

America's Capacity to Produce, by M. Leven and others. Brookings Institution, 1934, \$3.00.

A study of the distribution of national income among families and individuals and the ways in which their income is spent.

America's Capacity to Produce, by E. G. Nourse and associates.

A realistic appraisal of our productive capacity. Readable and authoritative.

Human Exploitation in the United States, by Norman Thomas. Stokes, 1934, \$2.75.

An attempt to interpret for the reader the human exploitation which is the result of capitalism and competition and what it has meant to the laboring classes of the United States.

Equality, by R. H. Tawney. Harcourt, 1931, \$2.25.

"Americans interested in . . . efforts of the state to raise the standard of living, will find Mr. Tawney's book the best possible reference book on the subject."—Winifred Raushenbusch.

Religion and the Rise of Capitalism, by R. H. Tawney. Harcourt, 1936.

A Christian Social Order

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How can we as Christian people develop spirituality when at the heart of all our economic relationships is the unspiritual fact of the competitive attitude? It poisons all our relationships, individual, group, and nation. If we are not faithful at that place, how can God trust to us the true riches? Today we are at an impasse in Christendom. We have gone as far in spirituality as we can under the competitive system. We are blocked at every turn in further individual and collective spiritual development. Christianity under this order seems an absurdity and unworkable. It is just that—under this order. But change the order to a cooperative one and Christianity will seem the only natural way to live. Anything else would be absurd and unworkable. So we have reached a spiritual stalemate. God is saying to us, "Right that economic relationship with each other and then I will intrust to you the true riches." A spiritual awakening, possibly on a world scale, awaits the righting of that relationship.

—E. STANLEY JONES, 1935.